

**STATE OF WASHINGTON
OFFICE OF THE INSURANCE
COMMISSIONER**



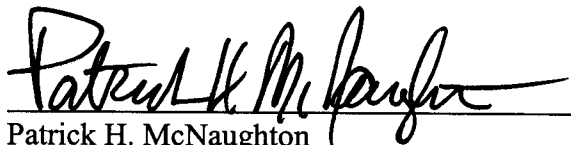
**FINANCIAL EXAMINATION
OF
Unigard Pacific Insurance Company
Bellevue, Washington**

**NAIC CODE 11096
DECEMBER 31, 2002**

Exhibit A

CHIEF EXAMINER AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Unigard Pacific Insurance Company of Bellevue, Washington. This report shows the financial condition and related corporate matters as of December 31, 2002.


Patrick H. McNaughton
Chief Examiner

10-19-04
Date

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Seattle, Washington
October 19, 2004

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance 5000 Building
5000 Capital Blvd.
Tumwater, WA 98504-0255

Dear Commissioner Kreidler:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an examination was made of the corporate affairs and financial records of

UNIGARD PACIFIC INSURANCE COMPANY
of
Bellevue, Washington

hereinafter referred to as "UPIC" or the "Company," at the location of its home office, 15805 NE 24th Street, Bellevue, Washington. This report is respectfully submitted showing the condition of the Company as of December 31, 2002.

SCOPE OF THE EXAMINATION

This examination covers the period January 1, 1997 through December 31, 2001, carried forward through December 31, 2002, and comprises a comprehensive review of the books and records of the Company. The examination followed the statutory requirements contained in the Washington Administrative Code (WAC), Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination.

Corporate records along with external reference materials from the NAIC and the Internal Revenue Service (IRS) along with various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, the Company's certified public accountant's and internal audit work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

INSTRUCTIONS

The examiners reviewed the Company's filed 2002 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the Annual Statement in accordance with the NAIC Annual Statement Instructions, and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC and the NAIC's Accounting Practices and Procedures Manual.

Based on our materiality threshold, no adjustments were required. Reclassification and adjusting entries are shown for informational purposes only. The following summarizes the exceptions noted while performing this examination.

1. Stock Register

The Company does not maintain a stock register or stock transfer book that tracks changes in ownership of the Company. One stock certificate indicated that Unigard Insurance Company owns all authorized and issued shares of stock of UPIC. The examination staff asked to view the stock register to insure that this certificate was the only one outstanding. The Company was unable to produce a stock register or other official company record showing the history of the Company's ownership. It is customary business practice for a corporation to maintain a stock register so that it can keep track of stock certificates, capital stock issued, dates of changes, changes in treasury stock, and to record future changes in ownership. RCW 48.05.280 states: "Every insurer

shall keep full and adequate accounts and records of its assets, obligations, transactions and affairs.”

The Company is instructed to maintain a stock register in order to meet the full and adequate accounts and records requirement of RCW 48.05.280.

2. Investment Management Fee

The Company receives investment management services from Winterthur Investment Management Corporation (WIMCO) an affiliate. The Investment Management Agreement which was approved by OIC requires management fees to be based on actual costs incurred by WIMCO. The Company was not able to provide records to support the costs incurred by WIMCO in providing investment management services to the Company. The Company did provide a summary record on the billing allocation method used by WIMCO which is based on actual costs but without the records and details to support those costs we were not able to determine the reasonableness of the billings charged to the Company.

This is in violation of the Insurer Holding Company Act (RCW 48.31B.030), which states “...the books, accounts, and records of each party...must be so maintained as to clearly and accurately disclose the nature and details of the transactions, including such accounting information as is necessary to support the reasonableness of the charges or fees to the respective parties.”

The Company is instructed to comply with RCW 48.31B.030 by maintaining its books, accounts, and records so that they clearly and accurately disclose the nature and details of the transactions, including such accounting information as is necessary to support the reasonableness of the charges.

3. Prior Approval of Service Agreement

The Company’s Cost-Sharing Agreement involved the following affiliates within the Unigard Insurance Company Group: National Merit Insurance Company (NMIC), Unigard Pacific Insurance Company, Unigard Insurance Company (UIC) and Unigard Indemnity Company (UID). The agreement was implemented on January 1, 1998, which was prior to the Commissioner’s approval date of April 6, 1999, and prior to its filing of Form D on January 7, 1999. RCW.31B.030(1)(b) states that a cost-sharing agreement “...involving a domestic insurer and a person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into the transaction and the commissioner declares the notice to be sufficient at least sixty days before, or such shorter period as the commissioner may permit, and the commissioner has not disapproved it within that period.” The Company implemented its Cost-Sharing Agreement with its affiliates prior to receiving approval from the OIC.

The Company is instructed to comply with RCW 48.31B.030(1)(b) which requires prior approval of agreements involving persons in its holding company system.

COMMENTS AND RECOMMENDATIONS

1. Inter-Company Tax Agreement

The Inter-Company Tax Agreement with Unigard, Inc., an affiliate, requires UPIC to prepare its tax return on a stand-alone basis. UPIC is required to file reports and make payments to the parent company on a timely basis in accordance with the Inter-Company Tax Agreement. UPIC was late in paying its accrued tax liability of \$270,342 for 2002 and its first quarter estimated tax of \$87,000 for 2003.

It is recommend that the Company settle its tax liabilities and any estimated tax payments with its parent company in a timely fashion in order to comply with the Inter-Company Tax Agreement.

COMPANY PROFILE

History

Unigard Pacific Insurance Company (UPIC) was incorporated as Federated American Insurance Company (FAIC) on October 27, 1955 under the laws of the state of Washington and commenced business on March 25, 1959. The Company had two wholly-owned subsidiaries, National Merit Insurance Company (NMIC) and GEMCO Enterprises, Inc.

Territory and Plan of Operation

Currently, UPIC writes private passenger auto and auto physical damage in the state of Washington. As part of an inter-company pooling agreement, UPIC participates in the underwriting results for multiple lines of business written primarily in the 6 western states of Arizona, California, Idaho, Oregon, Utah, and Washington.

Acquisitions, Mergers, Disposals, Dissolutions, Purchases, And Sales

On December 9, 1997, the Company and its subsidiaries were purchased by Unigard Insurance Company (UIC). Following the purchase, NMIC became a wholly-owned subsidiary of UIC, and a sister company of FAIC through an approved dividend transaction. GEMCO Enterprises was dissolved. On December 18, 2002, FAIC received approval from the state of Washington to change its name to Unigard Pacific Insurance Company (UPIC).

Growth of Company

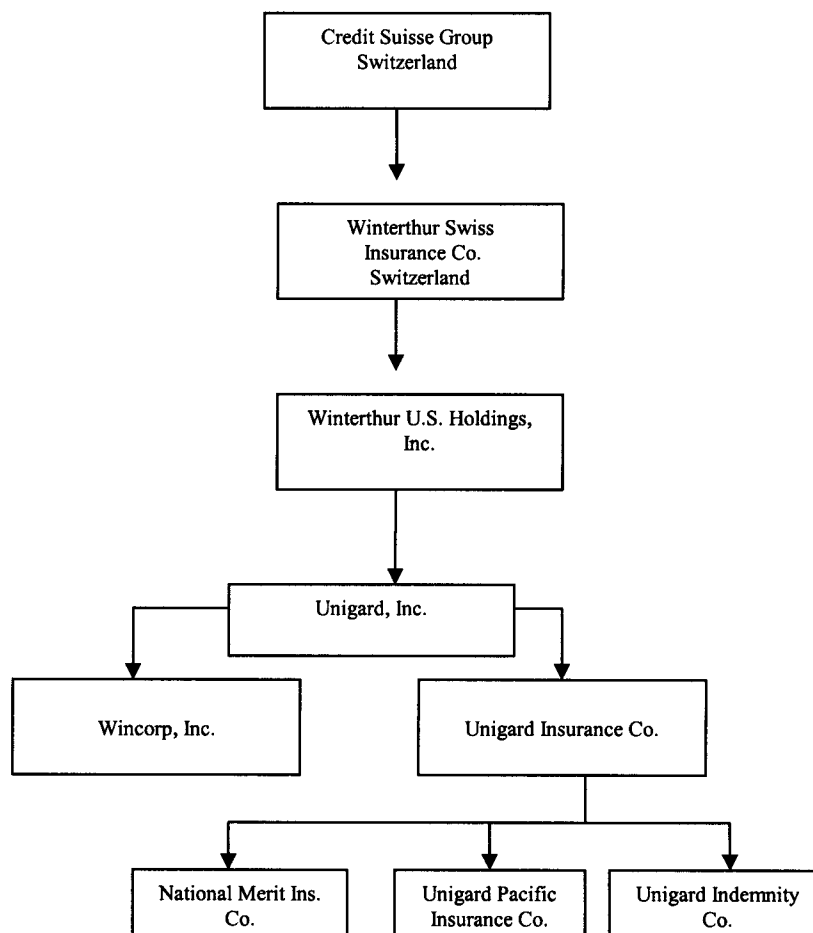
The following schedule shows the Company's growth for selected categories as reported in its NAIC annual statements:

<u>Year</u>	<u>Net Premiums Written</u>	<u>Net Losses Paid</u>	<u>Admitted Assets</u>	<u>Surplus as Regards Policyholders</u>
1997	\$ 11,114,399	\$ 7,117,959	\$ 19,403,847	\$ 8,937,049
1998	10,140,505	2,122,634	22,354,367	9,079,817
1999	8,167,052	5,473,234	21,948,154	9,978,714
2000	8,798,663	5,172,336	22,079,408	10,583,300
2001	10,072,884	5,485,736	23,909,751	11,944,261
2002	10,993,564	5,865,101	25,773,271	12,538,052

AFFILIATED COMPANIES

The Company's outstanding stock is owned by Unigard Insurance Company (UIC), which is a subsidiary of Unigard, Inc. All of the voting stock of Unigard, Inc., is owned by Winterthur U.S. Holdings, Inc., a Delaware Corporation and a wholly-owned subsidiary of Winterthur Swiss Insurance Company. Winterthur Swiss Insurance Company and its affiliates are members of the Credit Suisse Group. As a member of an insurance holding company system, registration statements are required to be filed in accordance with RCW 48.31B.025 and WAC 284-18-300. Winterthur U.S. Holdings, Inc. filed the registration statements for each year under examination on behalf of the Unigard Insurance Group.

The following organization chart depicts the direct organizational reporting structure of the Unigard group of companies as of December 31, 2002:



Unigard Insurance Company (UIC) provides all operating services for Unigard Pacific Insurance Company (UPIC), Unigard Indemnity Company (UID), and National Merit Insurance Company (NMIC), with reimbursement pursuant to service agreements between the parties.

Winterthur Investment Management Corporation (WIMCO), an affiliate not listed on the abridged organization chart, provides all the investment services for UPIC pursuant to an asset management/investment services agreement with UIC dated January 1, 1999.

Beginning in 1993, the income tax return of UPIC has been consolidated with Winterthur U.S. Holdings, Inc. and its subsidiaries. The method of allocation between the companies is subject to a written agreement that became effective on December 10, 1993 and

amended on December 9, 1997. The agreement requires taxes to be allocated based on separate return calculations. These calculations result in a tax charge (or refund) of not more than the amount each company would have paid (or received) had it filed a separate return with the IRS.

On January 1, 1998, UIC entered into an inter-company pooling agreement with two of its wholly-owned subsidiaries, UID and UPIC. Under the terms of this agreement, UIC assumes all of UID's and UPIC's net underwriting activity. UIC then cedes back to UID and UPIC, 10% and 4%, respectively, of the pooled business net of cessions to third party reinsurers.

MANAGEMENT AND CONTROL

Ownership

When the Company was purchased by UIC, there were 50,000 shares authorized of Class A and Class AA common stock with a par value of \$10 per share. 29,600 of these shares were issued to and owned by UIC. The Company also had 50,000 shares authorized of Class B and Class BB preferred stock with a par value of \$25 per share. 33,850 of these shares were issued to and owned by UIC. The Company was recapitalized through amendments to its Articles of Incorporation effective August 9, 1999. All the outstanding common and preferred stocks were surrendered in exchange for 11,422.50 shares of common stock with a par value of \$100 per share.

A stock dividend of 18,577.50 shares of \$100 par value stock was declared on August 9, 1999, approved by the OIC on August 25, 1999, and transferred on August 31, 1999. After the recapitalization and the stock dividend, the Company remained wholly-owned by UIC. UIC currently owns 30,000 shares of \$100 par value common stock with an authorized capital of \$3,000,000. All the authorized shares are outstanding.

Board of Directors

Article I, Section 1 of the Bylaws states that the business affairs of the Company shall be conducted by a Board of not less than seven (7) or more than seventeen (17) directors. The directors are elected at each annual shareholder meeting and are to hold office for one year.

The following directors, officers and committee members were serving the Company as of December 31, 2002:

Directors

Peter Christen

Principal Business Affiliation

Chairman, President & CEO
Unigard Insurance Group

Residence

Washington

John P. McPeak	Vice President & CFO Unigard Insurance Group	Washington
Toni G. Rotz	Vice President, Personal Lines Unigard Insurance Group	Washington
L. Arnold Chatterton	Vice President, Marketing Services Unigard Insurance Group	Washington
Cheryl L. Lang	Vice President, Human Resources Unigard Insurance Group	Washington
Jeffrey R. Dehn	Vice President, Commercial Lines Unigard Insurance Group	Washington
Kenneth C. Dedrick	Vice President, Claims Unigard Insurance Group	Washington
Paul D. Neuss	Vice President, Operations Unigard Insurance Group	Washington

Section 4 of the Bylaws provides that the Board shall appoint from among its members an Executive Committee composed of not less than three (3) members, including the President and the Chairman of the Board. The Executive Committee shall have full power to act for the Board ad interim. The following individuals were serving on the Executive Committee as of December 31, 2002:

Peter Christen
Cheryl Lang
John McPeak

Officers

Elected Officers

Article I, Section 2 of the Bylaws provides that the following key positions of the Company shall be elected by the Board of Directors: Chairman of the Board, President, Executive Vice President, General Counsel, and such number of Senior Vice Presidents and Vice Presidents as the Board may determine. The elected positions as of December 31, 2002 were as follows:

<u>Name</u>	<u>Title</u>
Peter Christen	Chairman of the Board, President & CEO
John P. McPeak	Vice President & CFO
Andreas F. Braendle	Vice President, Information Systems
L. Arnold Chatterton	Vice President, Marketing Services
Kenneth C. Dedrick	Vice President, Claims
Jeffrey R. Dehn	Vice President, Commercial Lines
Cheryl L. Lang	Vice President, Human Resources
Paul D. Neuss	Vice President, Operations
Toni G. Rotz	Vice President, Personal Lines
Scott A. Kallandar	General Counsel

Appointed Officers

Article I, Section 3 of the Bylaws provides that the Chief Executive Officer may from time to time designate a Controller, Treasurer, Secretary and any number of Assistant Vice Presidents and Assistant Secretaries. The appointed officers as of December 31, 2002 were as follows:

Scott Kallander	Secretary
LeAnn Weese	Assistant Vice President, Accounting & Treasurer
Norm Donelson	Assistant Vice President, Actuarial

Conflict of Interest

The Company has policies and procedures to identify any conflicts of interest of the directors, officers and exempt employees. Each officer and director submits a signed conflict of interest statement to the corporate legal department on an annual basis. Each exempt employee submits a signed conflict of interest statement to the corporate legal department every three years. Any reported exceptions that might be considered conflicts of interest are reported to the Board of Directors or its Executive Committee. No material exceptions were noted.

Fidelity Bond and Other Insurance

Winterthur U. S. Holdings, Inc., an affiliate, has a financial institution bond policy that includes coverage for its subsidiaries. The aggregate liability covered by the bond is \$10,000,000, which exceeds the NAIC recommended amount.

Winterthur U.S. Holdings, Inc., also has a program of coverage for its subsidiaries that includes: casualty excess, umbrella, employment practices, professional liability, directors and officer's liability, and fiduciary liability insurance.

The Company's property and general liability coverage is provided through an independent agency, i.e., they are underwritten by insurance companies other than those in the Unigard Group.

Officers', Employees' and Agents' Welfare and Pension Plans

UPIC does not have any employees. The employees of UIC provide all operational services for UPIC as required by the various inter-company contracts and service agreements. The officers of UPIC are also officers of UIC and are eligible for benefits under UIC's plans.

CORPORATE RECORDS

The Articles of Incorporation were amended on October 2, 2002 as the result of the Company's name change from FAIC to UPIC. The Bylaws were amended on December 11, 2000 to reflect administrative changes resulting from UIC's takeover. Both of these amended documents were filed with the OIC.

The Company's minutes from the Stockholder, Director, and Committee meetings documented disclosure and approval of the Company's transactions and events. The previous examination report was reviewed by the Company's directors.

LOSS EXPERIENCE

The reserves carried by the Company for unpaid losses and loss adjustment expenses were \$15,661,730 and \$3,610,560, respectively, as of December 31, 2002.

The reserves and an actuarial report prepared by the Company's consulting actuarial firm, Tillinghast-Towers Perrin, were reviewed by the OIC's actuarial staff. Company personnel provided loss and loss adjustment expense development data by accident year and line of business as of December 31, 2002.

Based on the analysis of data through December 31, 2002, the OIC's actuarial staff concluded that the Company's booked reserves for unpaid losses and unpaid loss adjustment expenses as of December 31, 2002 were within a reasonable range. Therefore, the reserves were accepted as shown in the 2002 Annual Statement.

REINSURANCE

The Company cedes and assumes reinsurance. UPIC is in compliance with the RCW and the NAIC guidelines regarding authorized and unauthorized reinsurers. All reinsurance agreements include the insolvency clause required under RCW 48.12.160(2). All reinsurance agreements in effect as of December 31, 2002 were reviewed and the coverage is summarized as follows:

Reinsurance Ceded

The Company, its parent (UIC), and its affiliates UID and NMIC, are collectively reinsured under a variety of reinsurance treaties. The following schedule summarizes the Companies' ceded reinsurance treaty coverage in force as of December 31, 2002:

<u>Property</u>	<u>Company Retention</u>	<u>Reinsurers' Limits</u>
First Per Risk Excess	\$500,000 \$750,000 annual aggregate deductible	\$1,500,000 excess of retention, \$4,500,000 per occurrence \$3,000,000 for terrorism
Second Per Risk Excess	\$2,000,000	\$3,000,000 excess of retention, \$6,000,000 per occurrence \$3,000,000 for terrorism
Third Per Risk Excess	\$5,000,000	\$5,000,000 excess of retention, \$5,000,000 per occurrence \$5,000,000 for terrorism
First Catastrophe Excess	\$5,000,000	95% of \$5,000,000 excess of retention, ultimate net loss per occurrence
Second Catastrophe Excess	\$10,000,000	95% of \$10,000,000 excess of retention, ultimate net loss per occurrence
<u>Casualty</u>	<u>Company Retention</u>	<u>Reinsurers' Limits</u>
First Excess	\$500,000 per occurrence	\$500,000 excess \$500,000 per occurrence
Second Excess	\$1,000,000 per occurrence	\$4,000,000 excess \$1,000,000 per occurrence
Third Excess	\$5,000,000 per occurrence	\$5,000,000 excess \$5,000,000 per occurrence

Reinsurance Assumed

The Company's assumed reinsurance is primarily determined by the inter-company pooling arrangement. UPIC, as part of the inter-company pooling agreement automatically cedes to UIC all gross liabilities incurred under or in connection with all contracts and policies issued by UPIC. UID also cedes 100% of their business to UIC, creating a "business pool". UIC cedes back 4% of the pooled business to UPIC. (See "Affiliated Companies").

ACCOUNTING RECORDS AND PROCEDURES

The Company's accounting functions are performed by UIC at its home office in Bellevue, Washington. Data is processed on UIC's computers using purchased software. Accounting services are also provided by UIC per the inter-company service and management agreement. In addition, the Company receives investment services from WIMCO according to an investment management agreement.

Data for UPIC, UIC, NMIC, and UID is entered into the same general ledger system. Company codes are used to identify and separate each company's data. This system produces a trial balance that can be downloaded into a Lotus spreadsheet and used for financial reporting. Booke software is used to prepare the NAIC Annual Statement. Investment accounting for marketable securities is processed by Sunguard, a personal computer (PC) based software package. Sunguard produces the NAIC Annual Statement investment schedules. Supporting details are recorded in the subsidiary ledgers, journals, and tabulations which are maintained by the UIC's accounting department.

SUBSEQUENT EVENTS

The following subsequent events were noted:

1. During the fourth quarter of 2003, Winterthur US Holdings, Inc., the parent of Unigard, Inc., announced that it would create a new service company called Winterthur North America (WNA) which will be located in Wisconsin. WNA will provide actuarial, financial, human resource, information technology, legal, and corporate marketing services to companies within Winterthur US Holdings, including UIC and its affiliates. It was announced that about 40 positions in information technology, human resources, and accounting would be eliminated. Most of the financial and accounting functions will be phased out near the end of 2004 and handled by the new service company, Winterthur North America. Transition to the new service arrangement will involve significant system conversions, training, and reporting line changes.

2. During the first quarter of 2003, the Company appointed Andreas F. Braendle, (Vice President of Information Systems) to the Board of Directors. He replaced Paul D. Neuss, the former Vice President of Operations.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

There were no instructions, comments, or recommendations made during the last examination.

FINANCIAL STATEMENTS

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UNIGARD PACIFIC INSURANCE COMPANY
Statement of Assets
As of December 31, 2002

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
Assets			
Bonds	\$ 21,913,935		\$ 21,913,935
Real estate:			
Properties held for sale	866,854		866,854
Cash and short-term investments	<u>2,111,797</u>		<u>2,111,797</u>
Subtotals, cash and invested assets	24,892,586		24,892,586
 Premiums, agents' balances and installments booked but deferred and not yet due	 15,803		 15,803
Federal income tax recoverable and interest thereon	495,000		495,000
Interest, dividends and real estate income due and accrued	359,462		359,462
Aggregate write-ins for other than invested assets	10,420		10,420
 Total Assets	 <u><u>\$ 25,773,271</u></u>	 <u><u>0</u></u>	 <u><u>\$ 25,773,271</u></u>

UNIGARD PACIFIC INSURANCE COMPANY
Statement of Liabilities, Surplus and Other Funds
As of December 31, 2002

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
Liabilities			
Losses	\$ 6,264,692		\$ 6,264,692
Loss adjustment expenses	1,444,224		1,444,224
Federal and foreign income taxes	270,342		270,342
Unearned premiums	5,009,990		5,009,990
Amounts withheld or retained by company for account of others	52,626		52,626
Drafts outstanding	136,343		136,343
Payable to parent, subsidiaries and affiliates	52,219		52,219
Aggregate write-ins for liabilities	4,783		4,783
Total Liabilities	<u>13,235,219</u>		<u>13,235,219</u>
Surplus and Other Funds			
Common capital stock	3,000,000		3,000,000
Gross paid in and contributed surplus	6,825,645		6,825,645
Unassigned funds (surplus)	<u>2,712,407</u>		<u>2,712,407</u>
Surplus as regards policyholders	12,538,052		12,538,052
Total Liabilities, Surplus and Other Funds	<u>\$ 25,773,271</u>	<u>0</u>	<u>\$ 25,773,271</u>

UNIGARD PACIFIC INSURANCE COMPANY

Statement of Income

For the Year-Ended December 31, 2002

	BALANCE PER COMPANY	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION
Underwriting Income			
Premiums earned	<u>\$ 10,360,474</u>		<u>\$ 10,360,474</u>
Deductions:			
Losses incurred	6,181,561		6,181,561
Loss expenses incurred	1,343,334		1,343,334
Other underwriting expenses incurred	3,377,381		3,377,381
Total underwriting deductions	<u>10,902,276</u>		<u>10,902,276</u>
Net underwriting gain or (loss)	<u>(541,800)</u>		<u>(541,800)</u>
Investment Income			
Net investment income earned	976,997		976,997
Net realized capital gains or (losses)	435,192		435,192
Net investment gain or (loss)	<u>1,412,189</u>		<u>1,412,189</u>
Other Income			
Net gain or (loss) from agents' or premium balances charged off	149		149
Aggregate write-ins for miscellaneous income	(745)		(745)
Total other income	<u>(596)</u>		<u>(596)</u>
Net income before dividends to policyholders and before federal and foreign income taxes	869,793		869,793
Dividends to policyholders			
Net income, after dividends to policyholders but before federal and foreign income taxes	<u>869,793</u>		<u>869,793</u>
Federal and foreign income taxes incurred	(330,000)		(330,000)
Net Income	<u>\$ 539,793</u>	<u>0</u>	<u>\$ 539,793</u>

UNIGARD PACIFIC INSURANCE COMPANY
Capital and Surplus Account
As of December 31, 2002

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
Surplus as Regards Policyholders, December 31 Prior Year	<u>\$ 11,944,261</u>		<u>\$ 11,944,261</u>
Gains and (Losses) in Surplus			
Net income	539,793		539,793
Change in net deferred income tax	(14,000)		(14,000)
Change in non-admitted assets	<u>68,000</u>		<u>68,000</u>
Change in surplus as regards policyholders for the year	593,793		593,793
Surplus as Regards Policyholders, December 31 Current Year	<u><u>\$ 12,538,054</u></u>	<u><u>0</u></u>	<u><u>\$ 12,538,054</u></u>

UNIGARD PACIFIC INSURANCE COMPANY
Reconciliation of Capital and Surplus Account
For the Five Years Ending December 31

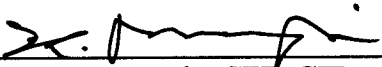
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Capital and Surplus as Regards Policyholders, December 31 Prior Year	<u>\$ 11,944,261</u>	<u>\$ 10,583,300</u>	<u>\$ 9,978,714</u>	<u>\$ 9,079,817</u>	<u>\$ 8,937,049</u>
Gains and (Losses) in Surplus					
Net Income	539,793	833,659	574,358	864,818	93,654
Change in net deferred income tax	(14,000)	42,000			
Change in non-admitted assets	68,000	114,715	30,228	34,079	49,114
Cumulative effect of changes in accounting principles		405,000			
Capital changes: transferred from surplus				1,857,750	
Surplus adjustments: transferred to capital				(1,857,750)	
Aggregate write-ins for gains and losses in surplus		(34,413)			
Change in surplus as regards policyholders for the year	<u>593,793</u>	<u>1,360,961</u>	<u>604,586</u>	<u>898,897</u>	<u>142,768</u>
Capital and Surplus as Regards Policyholders, December 31 Current Year	<u><u>\$ 12,538,054</u></u>	<u><u>\$ 11,944,261</u></u>	<u><u>\$ 10,583,300</u></u>	<u><u>\$ 9,978,714</u></u>	<u><u>\$ 9,079,817</u></u>

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers of Unigard Pacific Insurance Company during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP; Carl Baker, CPA, CISA, AFE; Bert Karau, CPA; Jeanette Liao; Kathy Hicks, CPA; Mitch Coe, CPA; Tarik Subbagh, CPA; D. Lee Barclay, FCAS, MAAA; Eric Slavich; and John Jacobson, AFE; all from the Washington State Office of the Insurance Commissioner, and Timothy Hurley, CFE from Oregon State Office of the Insurance Commissioner participated in the examination and the preparation of this report.

Respectfully submitted,



Timoteo L. Navaja, CFE, CIE
Examiner-in-Charge
State of Washington

AFFIDAVIT

STATE OF WASHINGTON

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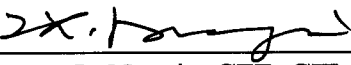
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COUNTY OF KING

}

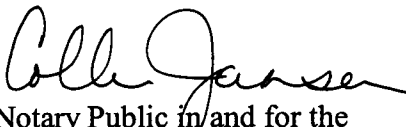
Timoteo L. Navaja, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of Unigard Pacific Insurance Company was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).



Timoteo L. Navaja, CFE, CIE
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me this 19th day of October, 2004.



Notary Public in and for the
State of Washington.

